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COWARDLY CAPITAL

By Frank Chodorov

Some four billion American dollars took off to Canada last year, there to take root in capital equipment and bring forth things people want. These dollars left their native habitat in favor of Canada because the government of that country confiscates less of the earnings of capital. Canada has no "excess" profits tax.

More American dollars escaped to South America, but because the governments of those countries are notorious for their predatory inclinations, the vast opportunities for investment below the Rio Grande have not attracted the American dollar as much as they should.

Nevertheless, according to the *Wall Street Journal* (July 8), Americans have put up 168 plants in Puerto Rico since the end of World War II. The lower "take" of the territorial government was the principal attraction. Puerto Rico has neither Federal nor local income taxes, no "excess" profits levy, and certain designated industries enjoy local tax exemption for a number of years. Taken as a whole, what is saved in taxes — or the burden the industries would have had to bear on the mainland — is in some cases equal to their total capital investment.

It is a cardinal principle of economics that capital flows to where the prospect of returns is greatest. A prize illustration of this principle is the case of an aging man of means who discovered that of every thousand dollars he would leave his heirs, only forty dollars would actually get to them. This seemed to him a denial of all he had been working for and he decided to do something about it.

Investigation led him to two British island possessions, one of which taxes inheritances, but does not tax incomes, while the other levies on incomes but not on legacies. So, he invested a large part of his fortune in the island where income is free and then arranged to transfer the earnings of this investment to the island that would not grab his property as soon as his eyes were closed.

This search of capital for a new "land of opportunity" — a title of which America was once rightly proud — is in line with the historic pattern. Whenever the returns from investment became insecure, whether from the ravages of the brigands or tax collectors, the tendency was to expatriate capital to some more promising area; in time, the owners

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of capital expatriated themselves. The story of German capitalists under Hitler is still fresh in our minds, and it is common knowledge that since the advent of socialism in England much British capital has seeped through the still porous curtain which the regime has hung around its island realm. Going further back in history, when the glory that was Rome was being tarnished by absolutism, its most sagacious entrepreneurs shipped their transportable belongings to Constantinople and as soon as possible came following after. Rome collapsed, Germany suffered defeat, England is a panhandling nation. America is not immune.

THE STRUGGLE BETWEEN human aspirations and political rapacity in this country is still largely a conflict of wits — between evasion and avoidance of taxes by producers and detection by the collectors. But, there are already signs of the use of strong-arm methods to which all governments ultimately take recourse. This should not surprise us. The individual instinctively feels a wrong has been done him when his property is confiscated — he senses an endowed right in the products of his labor — and he is inclined to save what he can from the confiscator; and the tax collector, well aware of this natural inclination, takes it for granted that everyone is guilty of some infraction of the law. He therefore must assume the character of public inquisitor and fortifies himself with the legal power of acting in such capacity.

Under the law, if the agents of the Internal Revenue Bureau have reason to suspect an infraction, and can figure out a bill of particulars, including interest and penalties, they can secure a lien on the citizen's property without the formality of a hearing, trial or even notice. The legal recourse allowed to the citizen is usually of no good to him, for the capital he could invest in such a course is tied up by the Government. It would be a shocking revelation of how far we have gone down the road of absolutism if the Bureau were to make known the number of liens it holds, the number of foreclosures that have been executed at its instigation. Only the Bureau could supply this information, for the attached properties are located in all parts of the country.

These methods have received little publicity — largely because the victims shun it — but word-of-mouth advertising has made up the lack. Even men who try to obey every tittle of the law figure it is safer not to own anything, and transfer title to much of their property to relatives and other "dummies". Small business firms are reluctant about enlarging their operations, not only because the net increase in earnings is not worth the risk involved, but because every employee represents a threat; any infraction of the withholding law, no matter how innocent, invites punishment. Enterprise has lost its lure.

The income tax laws have made of us a nation of cowards. Only a pauper can afford to flaunt the regime. The affluent must consider the likelihood of harassment by

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the IRB before striking a blow for justice. Men have been known to land in jail not because they attacked the State — perish the thought! — but because some irregularity in their income tax reports miraculously came to light. A group of wealthy men were recently discussing the advisability of supporting an embryonic movement for the repeal of the Sixteenth Amendment; when their lawyer cautioned that a swarm of income tax "investigators" would surely descend on them if they pursued this purpose, they passed it up.

IT CAN BE TAKEN FOR GRANTED that these strong-arm methods will be augmented as the State's insatiable appetite keeps gnawing at its belly. Its present concern is with the "loopholes" in the law which allow some of the loot to escape its grasp. These escape clauses got into the law in recognition of the fact that capital will quit altogether if every chance of profit is removed, and in that case there would be very little to tax. However, even though, for its own sake, the State recognizes the need of keeping the productive machinery going, the thought that any of its subjects are in fact improving their circumstances is galling to it. The minions of the law are much concerned with these "loopholes".

One of the most annoying of these stems from the law's own definition of "excess" profits. It arbitrarily fixes the earnings of a concern during the period 1946-49 as the basis for computing "excess". If the concern made little profit during those years, or even a loss, a large profit in 1952 becomes a calamity; as much as 87 per cent of the "excess" may be confiscated. On the other hand, its 1952 returns will not be hit so hard if during the "base" period it was doing very well.

Therefore, we read in the newspapers about a cosmetics concern buying out a manufacturer of farm equipment, or a gold mining company absorbing a meat packing plant. The buyer is not particularly interested in the nature or prospects of the business it is buying, but in its "favorable" tax position. The buyer is plagued by the fact that he earned too much money this year, as compared with his earnings or losses during the "base" period; the seller, on the other hand, is fortunately able to show very little profit this year, or, better still, a loss, while he did well in the 1946-49 period. The transaction is effected in order to reduce, through a consolidated profit-and-loss statement, the taxable profits of the buyer. It is reported that corporations about to fold up are finding buyers for their defunct outfits because of their "favorable" tax base.

A more popular "loophole" is the carry-back-carry-forward provision of the income tax law, by which a firm showing a current loss can claim a refund of taxes paid during the preceding years; collection entails considerable trouble, and legal fees, and unless the amount involved is large, most firms pass up the opportunity of a refund. Nevertheless,

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a loss can be an asset; it has a market value. For that reason we find advertisements like the following in the "business opportunities" columns of the newspapers:

> "Does your tax situation cause you to be interested in a concern with an operating loss? I know one that might be available."

THE INGENUITY of businessmen, lawyers and accountants who find and take advantage of the legal opportunities to save some of their capital is commendable. Even though their motives are selfish, they render a public service, as is evidenced by the fact that the public buys their products. We should be thankful that they keep the machinery of production functioning in spite of the anti-social activities of the politicians.

Nevertheless, on the basis of historical evidence it can be predicted with certainty that these "loopholes" will be plugged up. In time, the State will tax all profits out of existence, and then there will be no capital, except what the State has confiscated; it will then try to put some of this to productive use, so that there will be something to tax. That is the State capitalism which has come to every other country which went in for income taxation, and why should the United States be exempt?

There is no permanent escape. What assurance have those who ship their capital abroad that the governments of those countries will continue to be more considerate of private property than is the American government? And if the flight of capital achieves large proportions, it is a certainty that Washington will discover an "emergency" to justify the containment of capital within its sovereign grasp.

Under the circumstances — if we may indulge in offering some gratuitous advice — the most sensible thing for the capitalist to do is to eat it all up as fast as he can. He cannot take it with him, to be sure, and he cannot leave much of it to his offspring. Why let the ubiquitous tax collector have it?

If he has a sincere interest in his offspring, the best he can do with his capital is to put it into an all-out war against the State. For one thing, he can buy a college and man its faculty with the most intransigent individualists to be found. To make sure that its curriculum is not debauched after he is gone, he should have graven into the walls of the institution this slogan: The State is the Enemy of Society. It is conceivable that this could be an investment in freedom — and what better legacy can one leave one's children?

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HUMAN EVENTS

FRANK C. HANIGHEN, *Editor* FRANK CHODOROV, *Associate Editor*

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Democrats in Chicago: Whatever comes out of the Democratic convention, one development is obvious: the whole proceeding thus far has been shaken — and political seismographs register it — by an almost geological urge for realignment of the party.

For instance, our correspondent at the convention reported that many Northern Democratic delegates, far from worrying about whether the Southerners stay in the party or not, actually made no bones of their desire to get rid of them. Our correspondent reported that talk he heard among this Democratic element had one refrain: "We would be better off without the South." In short, the prevailing thinking of this important segment of the party was one of the urgency of party realignment.

Certainly statistics are on their side of the argument. Beginning with 1932, the Roosevelt-Truman forces in every general election could have won even if the electoral vote of the whole South had been deducted from their totals. New Deal statisticians and experts on elections know well (although many Republicans choose to ignore it) that the GOP since 1928 has never — on its own — rolled up more than 115 electoral votes. (Dewey in 1948 got the electoral votes of New York, Michigan and Maryland because Wallace's Progressive Party separated sufficient votes from the Truman Democrats to give the GOP candidate the electoral votes of those three states.)

This year, the extreme "liberals" in the Democratic Party have felt much more militant in their scorn of the Southern vote. For, unlike in 1948, their own ranks are not split; no Henry Wallace has risen or is likely to arise to cleave the Northern ranks. The Northern "liberals" felt with no little reason that united they could successfully defy the southern "reactionaries" in their party. In the first days of the convention, they were saying that an undiluted pro-labor and pro-civil rights stand could win more votes than would be lost if the South revolts. "Out with the Southerners — we would be better off", was the attitude of a large crowd, of which former Attorney General Biddle was a very vocal spokesman at this meeting. Win or lose, this segment has shown courage.

In a sense, these Northern "liberals" performed a real service for the two-party system. They wanted no hybrid partisan organization as has existed for so long. They desired to stand or fall on their own program. They were — much more honestly than the Republicans — prepared to face the rise of a new party as an opponent, formed of Southern Democrats and western Republicans, i.e., a union of the conservative wings of the two parties.

These "liberals" also approached their task in the Democratic convention with much more honesty and clearness of purpose than did Senator Russell, the Southern leader. Our correspondent in Chicago commented: "The reason why Russell made his mistake of asking for repeal of the Taft-Hartley Act is that he went to the convention with the assumption that he could win nomination. That was never possible. If he had been realistic and constructive, he should have merely prepared a brief for withdrawal of the South and realignment, for setting up a Southern organization preliminary to union with conservative elements of the Northern Republicans. Other Southern leaders — Byrnes and Byrd — did not share the delusion of Russell."

Heard in the Southern Caucus: (From our correspondent in Chicago.) Much agreement in Southern ranks that Russell had "put his foot in his mouth" when he came out for repeal of the Taft-Hartley Act.

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But, as one Southerner put it, apologetically: "Southerners are as ignorant of the traps in Northern politics, as Northerners are about Southern politics."

To a Northerner, it seemed that Russell's lapse was formally forgiven by his Southern colleagues — for the period of the Convention only. Later, it seemed to us, the boys might turn to another for leadership in their section of the country. Byrd? Well, the Virginian's striking victory in his state's Senatorial Democratic primary last week received much happy comment. Also, the visiting Southerners in Chicago were greatly impressed by Byrd's obvious popularity in the North, from remarks of Chicagoans and press comments.

In this connection, it was recalled that Byrd's opponent in the primary was a Fair Dealer, who sought to associate Byrd as much as possible with Taft, and who praised Ike at every opportunity. Apparently, Virginians found these charges actual assets for Byrd, and they didn't bother the Senator who has never made any bones about his friendship for Taft.

Talk of the GOP convention lingered. For instance, when Chairman (Governor) Dever made that famous ruling Monday night that there was not a 20 per cent show of hands on the floor (when there were obviously more hands than that), Southerners remarked: "Well, that famous Taft steamroller at least let its opponents vote on a roll call."

We found few references to Ike as a candidate for whom Southerners might vote if they were "kicked out" of the Democratic (Northern) Party. When we broached this subject some Southerners brought up an argument against supporting Ike as follows: Many Northern Democrats were seeking to exclude two regular Southern delegates (Texas and Mississippi) and to seat instead two Administration-controlled delegations from those states: well, the Ike forces had sought and succeeded in excluding not only a Texas GOP delegation, legally elected, but Taft delegations from other Southern states. In this, the Southern mind found a parallel which it did not like.

The Southerners were not desperately seeking to stay in the Party, although Northerners received that impression, simply because the South did not immediately "walk out" before left-wing provocation. Northerners fail to understand that in case of a break, the Southerners want to get it on the record, for home consumption, that they were "forced out". They tried to save the Democratic Party, they could say, but the Yankees in the Party "kicked them out". The voters at home, traditionally Democratic, must be given the story somewhat along those lines. This is a shade of Southern psychology and politics not readily understandable in the North.

One Southerner, discussing his Party's split, remarked: "Well, we can put off our decision what to do next in the national scene until September, when we will probably hold state conventions. Or we could even put it off until after the November election, when we'll have to come to a decision as to how our presidential electors will vote in the electoral college."

The Ohio Story: Capital observers are talking about what goes on in the GOP in that state. The local Scripps-Howard paper, the *Washington Daily News* (which declared for the General's candidacy over a month ago) reported under a Columbus, Ohio, dateline on July 18, that "alarmed Ohio GOP leaders are urging General Eisenhower to address their state convention here July 31 as a harmony move in an admittedly bitter situation in the Midwest". These leaders, it was reported, wanted something "dramatic" such as an Ohio appearance by Ike himself "to remove the bitterness that has piled up in the Midwest since Ike defeated Ohio's Senator Robert A. Taft last week". This pro-Eisenhower paper referred to "the strong lets-sit-this-one-out" feeling that is noted not only in Ohio but in other Midwestern states. "The resentment", says the paper, "against Mr. Taft's defeat is far greater than in 1940 and 1948."

And on Capitol Hill it is said that the Ohio State GOP leaders literally implored Eisenhower headquarters to send the General. When the headquarters said "no", and suggested sending Nixon, the Vice-Presidential candidate, the reaction was, "a second-stringer isn't enough for this situation". But the Ohioans had to take Nixon.

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Meanwhile, reinforcing the Scripps-Howard report that similar trouble was brewing in other Mid-western states, there came a report from Indianapolis. Indiana stood firm and almost unanimous for Taft in the convention, and the leadership of the party hierarchy has been in the hands of the people strong for Taft. After Ike's victory there arose suggestions that the State leadership be changed. On Monday, July 21, the state GOP committee met and discussed the suggestion. Only a small minority favored a change; and the committee adjourned until next week. Possibly it is waiting to see what the Democrats would do.

One factor which increases internecine strife is the feeling that the Dewey crowd will not allow any cooperation between Taft men and the Ike set-up. A story is going the rounds on Capitol Hill about that famous meeting between Ike and Taft following the former's nomination. It is claimed that Ike conspicuously failed to ask for Taft's cooperation in the campaign; he merely asked for Taft's cooperation in the Senate after the election (on the assumption that he would win). We have checked this story with some who were present at the meeting, and they confirm it.

A Note on the GOP Split: Quite probably, the resentment of a number of Taft followers toward Dewey and the Eastern Republicans may dissipate to some extent after the naming of a Democratic candidate. Already we hear of a number of these disgruntled ones who say they will support the whole ticket in November.

However, these individuals seem to be mostly "very regular" Republicans or party workers. And it is noticeable that party workers confess they find few in the rank and file who take their philosophic point of view. Some of these party workers have confided to us that they will be more interested in plugging for the local tickets than for Ike. That sort of a remark is usually a sign of an impending "walk" by large numbers of the rank and file.

Furthermore, it should be mentioned that, even now, ten days after the convention, when much of the initial emotion has spent itself, some of those whom we might call the intellectual leaders of the "nationalist" wing not only believe that a real split exists, but actually advocate a deliberate "sit-on-their-hands" movement. Their argument is that Ike will wage a campaign similar to that of Dewey in '48, that the party is bound to be defeated and that it would be better in the long run if the Eastern "liberals" be thoroughly discredited and permanently put down. Only out of the ruins of such a defeat, they say, can a rejuvenated and virile Republican party be created. This attitude was not present in 1948 and its existence today constitutes a grave threat to the performance of the Ike campaign plans.

Germany: The Germans show no haste in ratifying the treaty which Dean Acheson rammed through the U.S. Senate in such a hurry. The West German Government of Adenauer has postponed voting on the pact until after the summer parliamentary recess. Meanwhile, from private advices from Bonn and other parts of Western Germany, we learn that resistance to German ratification is growing.

For instance, the promise of the creation of a German army finds no favorable response among the youth. For five years, under Western occupation of the land, young people were lectured severely by the occupation powers on the evils of militarism and were subjected to real pacifistic indoctrination. By this time, young men have taken these lessons to heart and do not easily accommodate themselves to the "new line" of militarization now preached by the West. As a German correspondent puts it in a letter to us: "The education of de-militarization has been done so thoroughly by the Americans after the war that now people are afraid of any rearmament."

Moreover, the Germans find no valid reason to accept the statements of Acheson and their own head of State, Chancellor Adenauer, that the treaty makes Germany an "equal partner" with the Western countries. It is constantly pointed out that Article V of the Treaty gives the Western powers the right to seize all governmental power in Germany if these powers decide that public order and security so demand it. Also, German troops would be under NATO, an organization to which Germany has not been admitted as a partner. The Germans ask: "What kind of equality is this?"

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Even members of Adenauer's coalition government display qualms. One of these, Herr Pfleiderer of the Free Democratic Party remarks: "The spirit of Nuremberg runs like a red thread through this treaty and it may well become a second Versailles treaty." Americans should recall that "Versailles treaty" is a term that helped turn Germans to the side of Hitler in the period between the two world wars.

The well-informed Dr. John B. Crane who writes a column on Germany from Bonn for the Hopkins Syndicate of America, remarks: "The opposition's major objections to ratification are so weighty that it seems highly doubtful that ratification can take place until at least some of their objections are met. At the moment it does not look as if a vote on ratification would be attempted before October, and possibly not before the American presidential election in November."

Operation McGuffey: A public school teacher in Southern California found the prescribed curriculum quite distasteful, the "progressive" methods inadequate. Since it was impossible to change either, he resigned his job. But, he was a teacher at heart and had no intention of giving up his chosen profession. He therefore started a school of his own, a very modest venture in which he and his wife constituted the entire faculty. The parents of the children whom he enrolled the first term were pleased with results, and more pupils came. As we get the story from one who is close to the situation, the teacher-entrepreneur did not advertise the fact that he was not using the "progressive" curriculum or method. He is not a reformer; he is a teacher. Parents bought his services only because they liked the results.

After about a year, the demands for the services of this two-faculty school were greater than they could satisfy in their modest quarters, and the last information is that a house is being erected to take care of more pupils; also, that even before the house is completed the applicants number more than it will accommodate. Because of that fact, and also because the teacher-entrepreneur is anxious not to stir up the "progressives", he asked our informant not to advertise his business, and for that reason we are not even mentioning the name of the city in which the school is located.

However, one detail we must give. For lack of anything better in the way of a text book, the school uses the McGuffey Readers.

Artful Dodging: Our article of the week, *Cowardly Capital*, could have also dealt with some practices of the Internal Revenue Bureau that Sen. George S. Williams of Delaware has been bringing to light. One of these he has described on the Senate floor as a "giveaway to gangsters". It is a method of evasion that is peculiarly adaptable to the less social ways of making a living, but is not necessarily confined to gangsterism.

If a citizen reports his income, but does not pay his tax, and declares that he is without sufficient funds, the only thing the I.R.B. can do is to take whatever it can get. "Something is better than nothing", and so it accepts a compromise, after investigation shows that the citizen is telling the truth about his resources.

It is obvious that a gambler, or any other person whose transactions are on a cash basis, and whose office is "under his hat", can "lose" a lot of money during the year in such a way as to evade the most scrutinizing accountant. He earned enough, let us say, to make him subject to a tax of $100,000 — and he so declares; but all he has on hand, in cash or other assets, is $25,000; the rest has disappeared in "bad investments", etc. He liquidates "everything" he has and hands over the proceeds to the government, in exchange for a clean bill of health.

Under the prodding of Sen. Williams, the Bureau has come up with the proposition to make public those tax settlements (by which the government frequently gets only a few cents on the dollar). Williams' purpose is to avoid the suspicion of political influence in the deals.

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